



Washington

Food

Industry

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Washington State Wine Pricing History

From the perspective of the grocery industry

Wine pricing in Washington State should be considered in three phases:

1. Analysis 2003. After years of stalling on the question of whether state stores were competing unfairly, the LCB hired an outside consultant to evaluate prices. The December 2003 study by Dave Pavelchek of Washington State University (which can be found at <http://www.liq.wa.gov/publications/WineSurveyFinalReport.pdf>) was released at the beginning of 2004 and as presented in our newsletter:

Just as WFI members have been contending for many years, a new study from the Washington State University Social and Economic Research Center confirms that the State Liquor Stores are able to use their advantages under the state laws, to sell wines at lower prices than the supermarkets. Working with Bob Broderick from WFI member Associated Grocers, the Liquor Control Board commissioned the study to finally get at the truth.

When the study looked at prices for 64 different bottles of high volume general market wines found in eight stores from major grocery chains in Pierce and Thurston Counties, the State Liquor Stores total price was 5.5% below the average and 21% lower when store membership pricing was eliminated. "

Total Price of 64 Items at 8 Stores

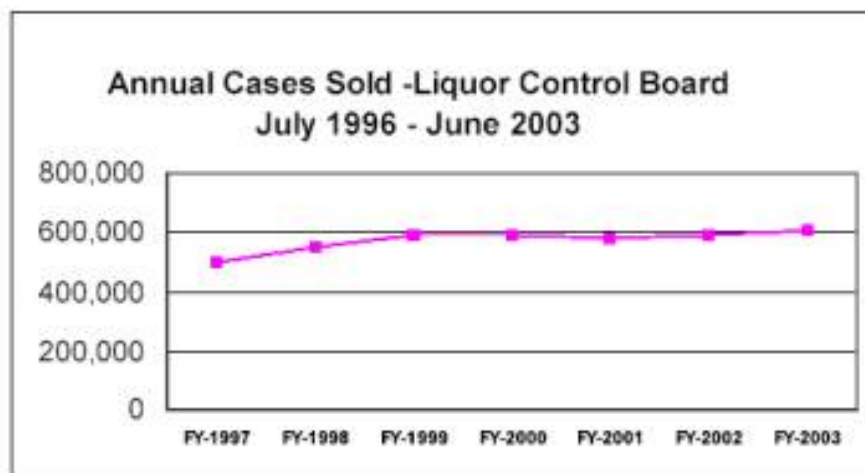


Evergreen Plaza Building Suite 700, 711 Capitol Way
(360) 753 - 5177
Olympia, WA 98501

It is important to note that the sampled private stores only included two stores from each of four major grocery chains (a “big box” store was included in some of the comparisons but not the above chart). The chain prices would obviously be lower than what many smaller retailers can charge.

The agency then did its own internal study of the top 100 selling wines and found a 12% price advantage for the state stores.

2. First Solution 2004: The Liquor Control Board continued to argue that pricing was not a problem because their historic 10% share of the market has remained unchanged over the years. However, because it was beginning a new multi-year wine sales strategy system wide, the Board voted on July 14, 2004, to phase in over the next year an increase in the price on any of the top 100 selling wines that were below market prices. They called this the short-term strategy and agreed that long-term they would increase prices on any wines necessary to keep their total market share from exceeding 10% (there was a major disagreement over whether the short-term strategy was to continue in effect regardless of sales).

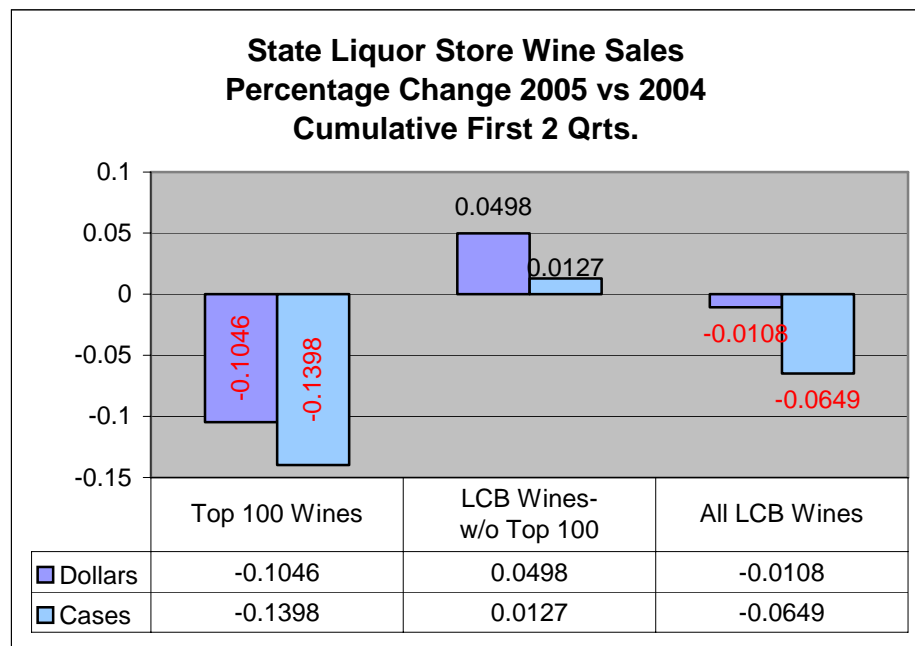


3. Second Solution 2005. After raising wine prices of the top 100 wines to a level comparable to supermarket prices, the State Liquor stores saw a 10% drop in sales of those wines. Faced with declining revenue the Washington State Liquor Control Board unilaterally changed its wine pricing strategy at its August 10, 2005, meeting and as reported by WFI:

You may recall that last year two separate studies documented that the State liquor stores sell wine at prices that average 6% to 12% less than supermarket prices. They are able to do this because the state is not bound by the wine pricing laws that set prices for the private sector.

As a result of the studies the LCB directed that prices for the top 100 wines should be adjusted to supermarket prices (still lower than what smaller stores can match) and these changes were phased in with the final adjustments taking place on July 1. The LCB also adopted a long-term strategy of keeping all state liquor store wine sales at 10% or below total state sales.

Effective October 1 the LCB rescinded the price adjustments and instead raised its mark-up on all wines from 38% to 43% - a 7.6 percent increase. As a result, the top 100 wines will go down in price but the other 55% of wines sold (65% of dollar sales) will go up in price.



Why is the state competing in the sale of wine and beer when it is conveniently available to the public through private sector retailers?

- The same taxes are collected on a bottle of wine regardless of the purchase through a private retailer or competing state liquor store.
- Albertson's did an internal study of comparing their wine sales on the top 100 selling wines that were identified by the LCB in #2 above and sold in Albertson's and found that their increase in sales were in direct correlation to the LCB's reduction in sales. The state likely did not lose any tax revenue from the sale of wine during this period.
- With the revisions in the "direct shipment to retailers" law, all small wineries now have access to any private sector retailer. Inability to access the private marketplace through a wholesaler has historically been an argument against removing wine from the state control stores.

The State of Washington should concentrate its resources on sale of only spirits and the regulation of the private sector in all licensing and marketing activities of alcoholic beverages. The diversion of these resources to directly compete with the private sector and the conflict of interest of regulating its competitors should finally come to an end. The state should only be in the business of providing a product or service not available through the private sector at an orderly and reasonable manner.